

California Society of Municipal Finance Officers Annual Conference
Oakland, CA ❖ February 20-22, 2013

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State Budget Update



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Governor's 2013-14 Proposed Budget

Budget Gap Closed

Proposition 30 Revenue Estimates			
<i>(In Millions)</i>			
	Personal Income Tax	Sales and Use Tax	Total
2011-12 ^a	\$2,816	—	\$2,816
2012-13	4,265	\$607	4,872
2013-14	4,358	1,313	5,671
2014-15	4,697	1,401	6,098
2015-16	4,917	1,485	6,402
2016-17	5,173	804	5,977
2017-18	5,434	—	5,434
2018-19	2,216	—	2,216

^a Reflects Governor's proposal to accrue a portion of personal income tax revenues collected during 2012-13 back to the 2011-12 fiscal year.

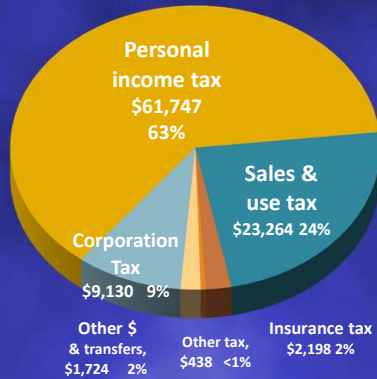
Source: Legislative Analyst's Office



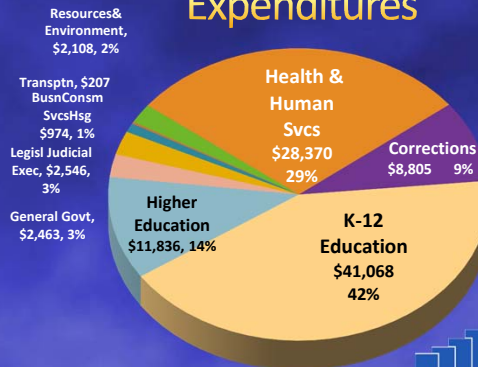
Governor's 2013-14 Proposed Budget


Budget Gap Closed

Revenues



Expenditures






Governor's 2013-14 Proposed Budget Budget Gap Closed

- Estimates FY2012-13 end w/ ~\$167m operating surplus.

FY 2013-14 proposed budget ...

- Increased funding for K-12 schools and higher education
- Expansion of Medi-cal related to Federal health care reform
- Recent significant cuts maintained:
 - ◆ CalWORKs
 - ◆ Child Care & Devt
- Pays down \$4.2 billion in budget related debt
 - ◆ Including \$1.8 billion owed to schools
 - ◆ Pay down budget debt from current \$28 billion to \$5 billion by 2016-17
- \$1 billion reserve

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Governor's 2013-14 Proposed Budget Budget Gap Closed

- Risks ...
 - ◆ Federal actions, including the pending sequester
 - ◆ Uncertain economic recovery
 - ◆ Legal actions by the federal gov't which could block cuts
 - ◆ Increased healthcare costs under the Affordable Care Act (ACA)
 - ◆ Redevelopment savings? Estimates revised down by ~1/3
 - GF savings = \$2.1 billion in FY12-13, \$1.1 billion FY13-14
(revised from \$3.2b FY12-13 and \$1.6b FY13-14 in 2012 Budget Act)
- By 2016-17 "wall of debt" mostly paid down but ...
 - ◆ Minimal reserve
 - ◆ Large unfunded costs looming for retiree health care, teacher pensions

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Federal Budget Sequestration

Issues for California Municipalities

<u>Program</u>	<u>Projected Cut</u>
• Community Development Block Grant (CDBG)	8.4%
• HOME Investment Partnership	8.4%
• COPS – Community Oriented Policing	8.2%
• Byrne Justice Assistance Grants	8.2%
• Clean Water State Revolving Loan Fund (CWSRF)	8.4%
• Water Infrastr Funding (Army Corps of Engrs)	8.2%

Also ...

- \$739 million in highway and road funding is at risk
- California could lose \$2 billion in defense contract revenue
→135,000 private-sector jobs and \$11.7 billion in gross state product

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Governor's 2013-14 Proposed Budget

Budget Gap Closed

- **Enterprise Zone** reforms (but not elimination)
- **COPs program** – funded at current year levels – no change
- **Law Enforcement – Local Assistic Grants** increased from \$20million
 - ◆ FY2012-13 current yr: \$24 million
 - ◆ FY2013-14: \$27.5 million
- **Local Gov't Mandates Suspension**
 - ◆ Again defers payments owed for pre 2004 mandates
 - ◆ Again suspends most mandates to avoid payments
- **Prop 39** changed state corporate tax
 - ◆ requires half of new revenues go to energy efficiency programs (~\$450 million in FY2013-14)
 - ◆ Governor says: send funds to a special fund for local schools

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Current Legislative Fiscal Issues for Cities

- Redevelopment dissolution issues
- New Tax Increment Financing Economic Development tool
 - ◆ TIF District, RDA II, etc.
- Local Sales Tax allocation
 - ◆ effects of online sale warehouse developments
 - ◆ City/seller sales tax sharing agreements
- Supermajority Vote Requirements – reduce 2/3 to 55%?
 - ◆ Parcel taxes, ◆ Special taxes, ◆ G.O. bonds
 - ◆ Schools, libraries, transportation, general?
- Incorporations and Annexations – fiscal viability
 - ◆ Re: VLF shift (SB89 2011) and the VLF / Property Tax Swap

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Property Tax Administration Fees (P.T.A.F.) *City officials: Have you taken action?*

- **VLF - Property Tax Swap (2004)** provides transfers of property tax to cities (& counties) to compensate for VLF cut.
- **Sales Tax Triple Flip (2004)** provides reimbursement for ¼ percent sales tax used by state for Economic Recovery Bonds.
- Most **County Auditors**, in calculating PTAF have treated the Swap & Flip amounts as new property tax shares – and **reallocated total costs**.
- Cities objected, arguing that **R&T97.75 allows only “actual costs”** of the Flip and Swap.
- ✓ CaSuprCourt ruled in favor of 47 L.A. County cities (Nov’12)
- Recovery of prior year amounts may be in dispute.
 - ◆ Find out what your county auditor is doing.
 - ◆ Talk with your city attorney. File claims. Tolling agreement? etc.


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Is it Time to Reduce Supermajority Vote Thresholds?






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Reduce 2/3 Vote Thresholds?

Taxes and Fees/etc. Approval Requirements (California Constitution)

	Tax- General	Tax- Parcel or Special (earmarked)	G.O.Bond (w/tax)
City/County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval
Special Dist.	n/a	Two-thirds voter approval	Two-thirds voter approval
K-14 Schools	n/a	Two-thirds voter approval (parcel tax)	55% voter approval*
State	For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature and Governor approval ...or approval of majority of statewide voters.		Statewide majority voter approval



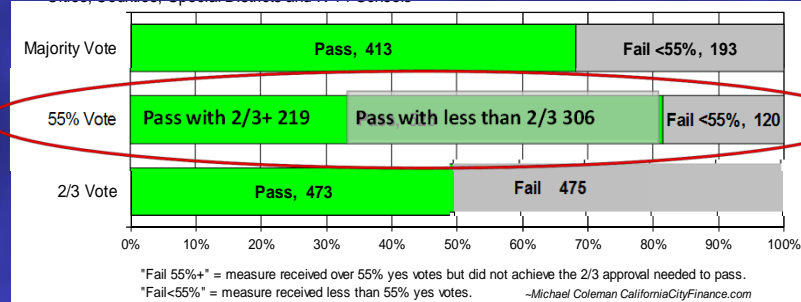
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Reduce 2/3 Vote Thresholds?

Local Tax Measures: Passage Rates

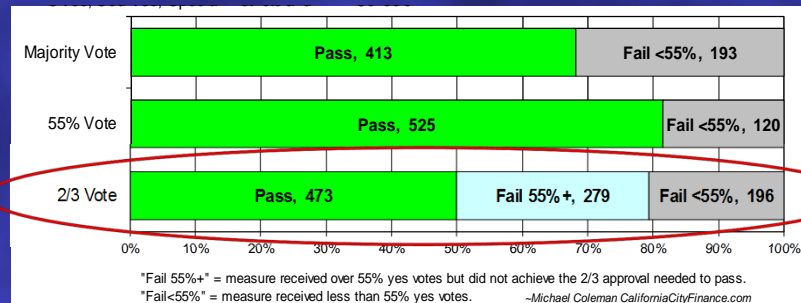
Cities, Counties, Special Districts and K-14 Schools 2001 through November 2012

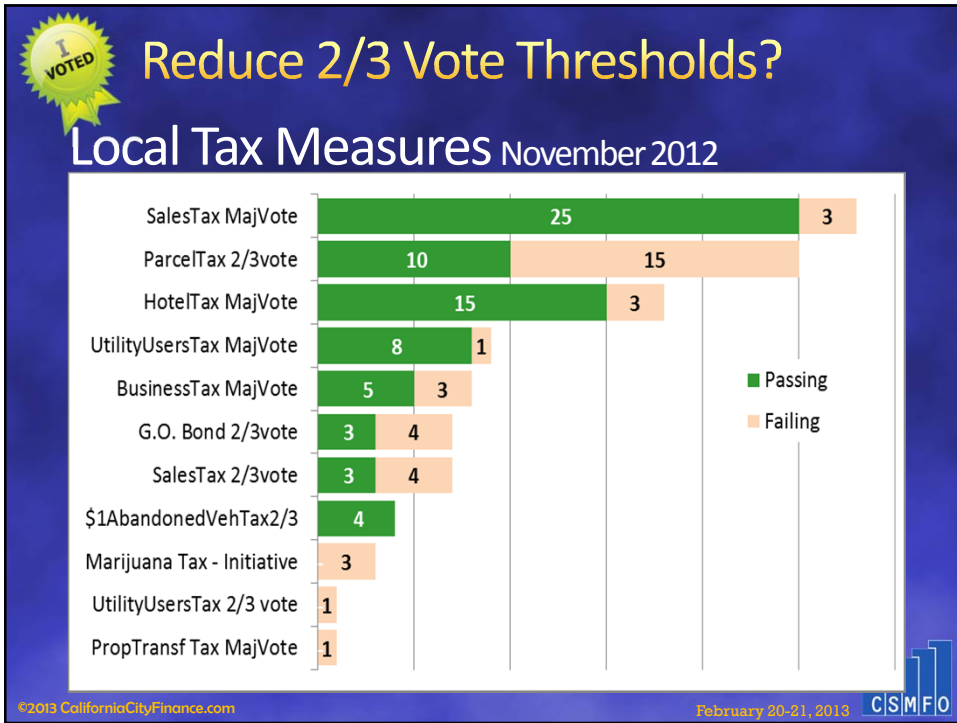


Reduce 2/3 Vote Thresholds?

Local Tax Measures: Passage Rates

Cities, Counties, Special Districts and K-14 Schools 2001 through November 2012

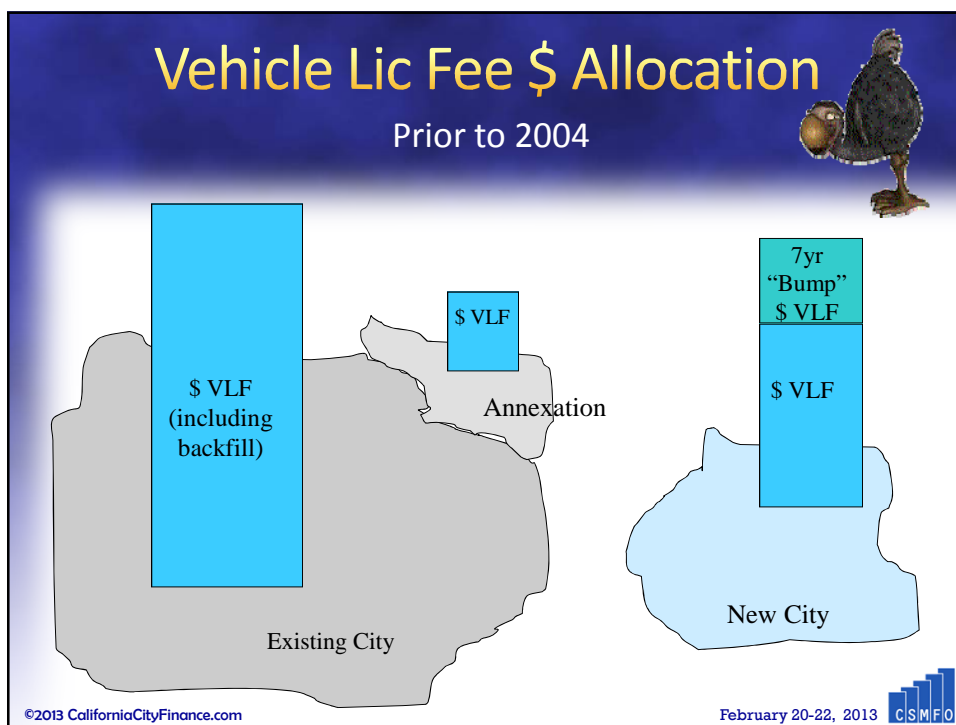
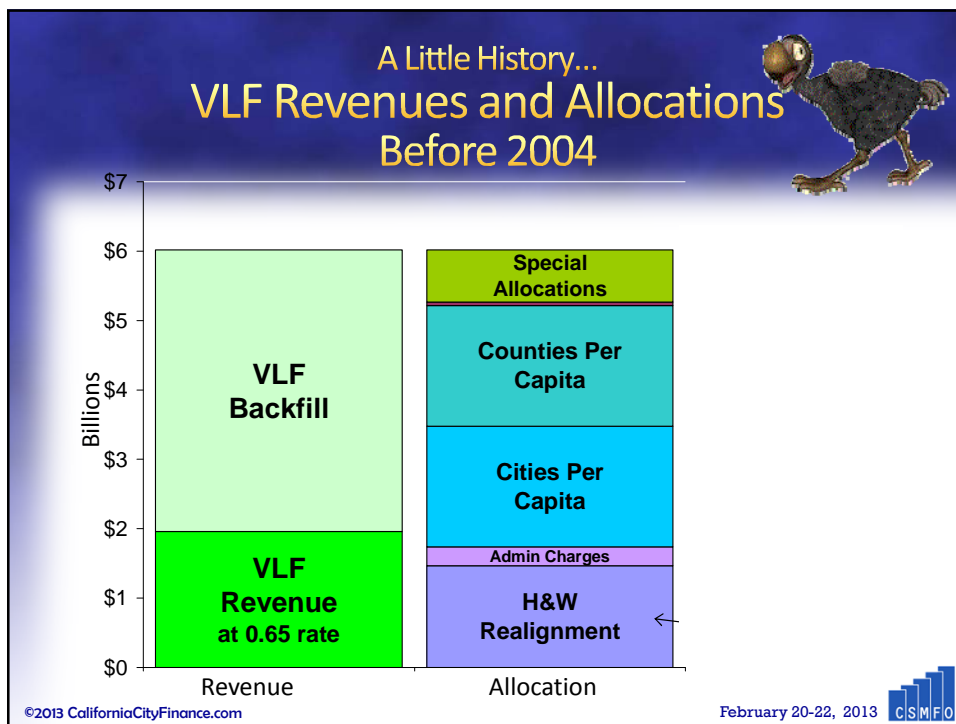


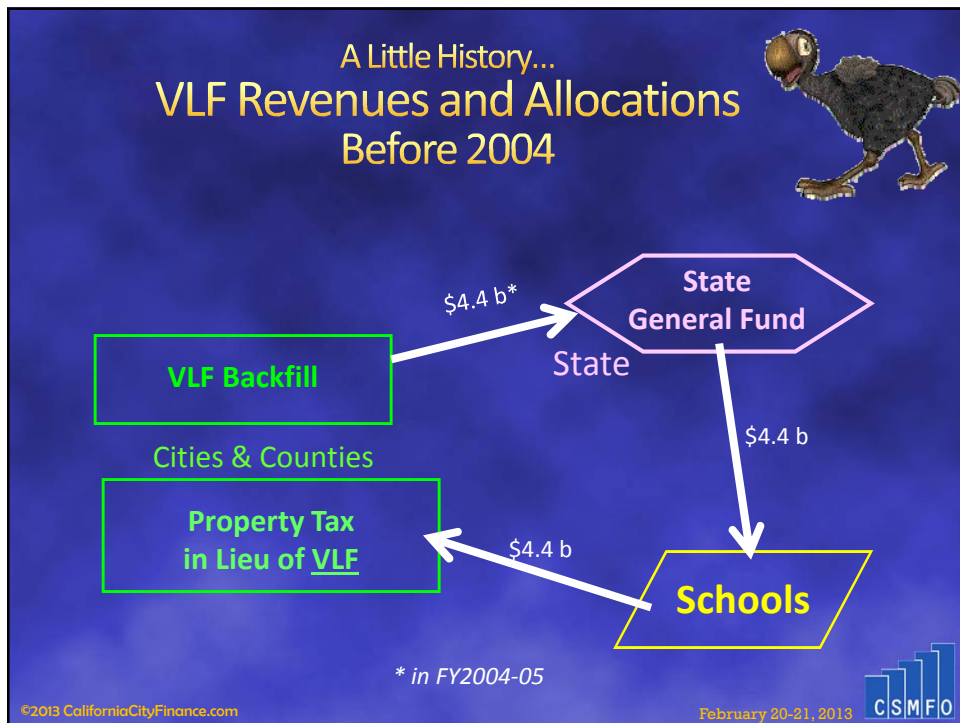
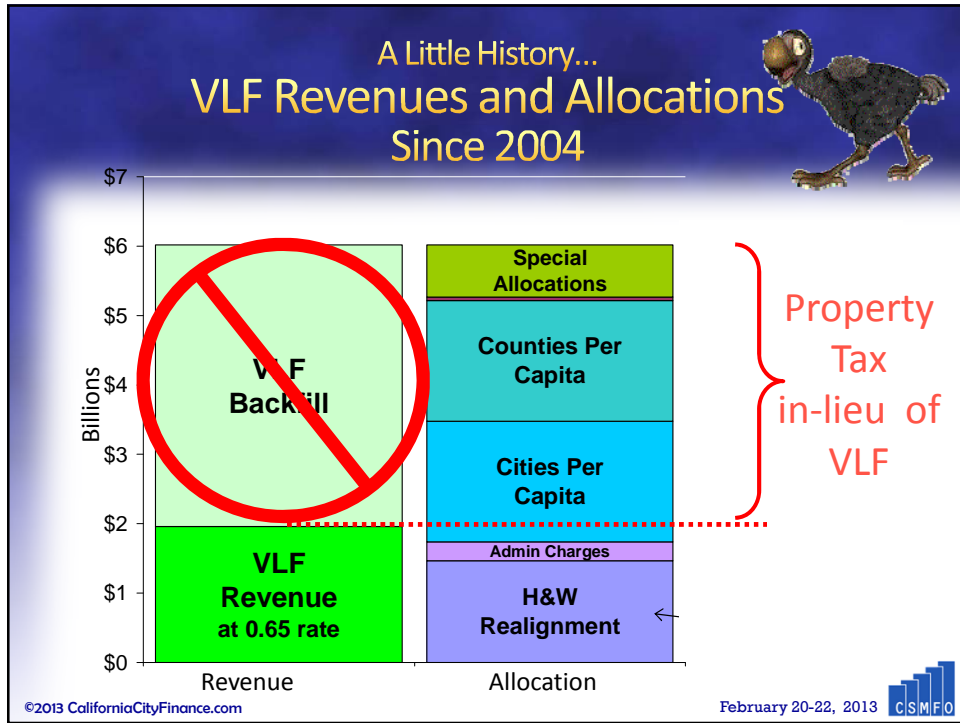


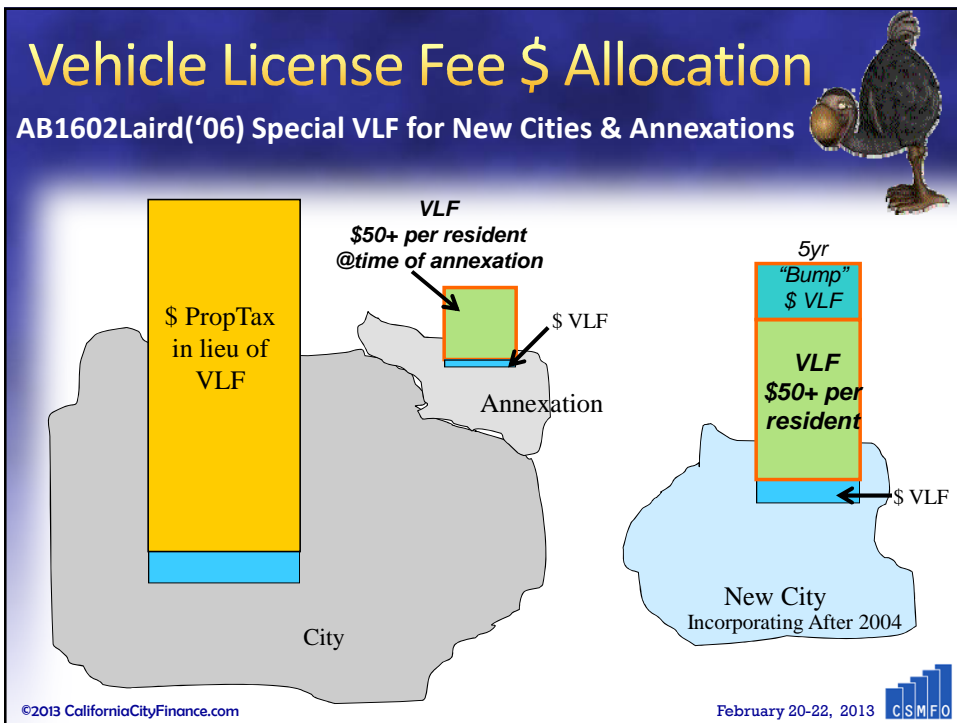
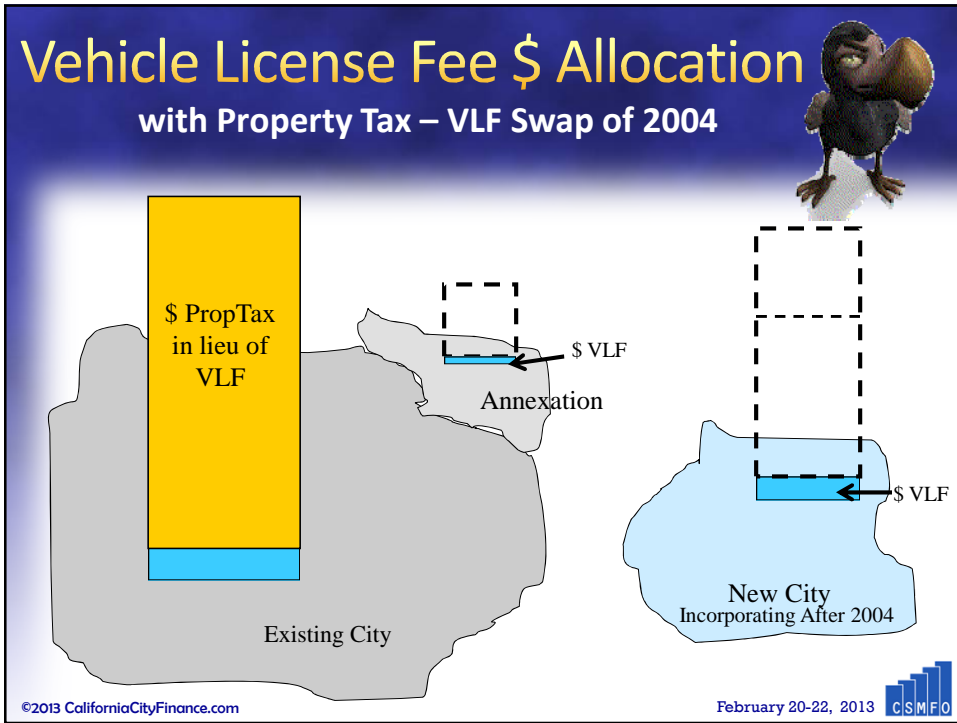
Are Incorporations and Annexations Extinct?

Serious flaws in the Property Tax

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Vehicle License Fee \$ Allocation

SB89 Eliminated All City VLF
 (Diverted to Law Enf Grants previously funded from State General Fund)

The diagram illustrates the impact of SB89 on Vehicle License Fees (VLF). On the left, a grey area labeled 'City' has a yellow box representing '\$ PropTax in lieu of VLF'. A dashed box labeled '\$ VLF' is crossed out with a red 'X'. An arrow points to an 'Annexation' area, where a dashed box labeled '\$50+ per resident @time of annexation' is crossed out with a red 'X', and another dashed box labeled '\$ VLF' is also crossed out. On the right, a blue area labeled 'New City Incorporating After 2004' has a dashed box labeled '5yr "Bump" \$ VLF' crossed out with a red 'X', and another dashed box labeled 'VLF \$50+ per resident' is also crossed out. A small cartoon bird is in the top right corner.

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Where Your Sales Tax Goes

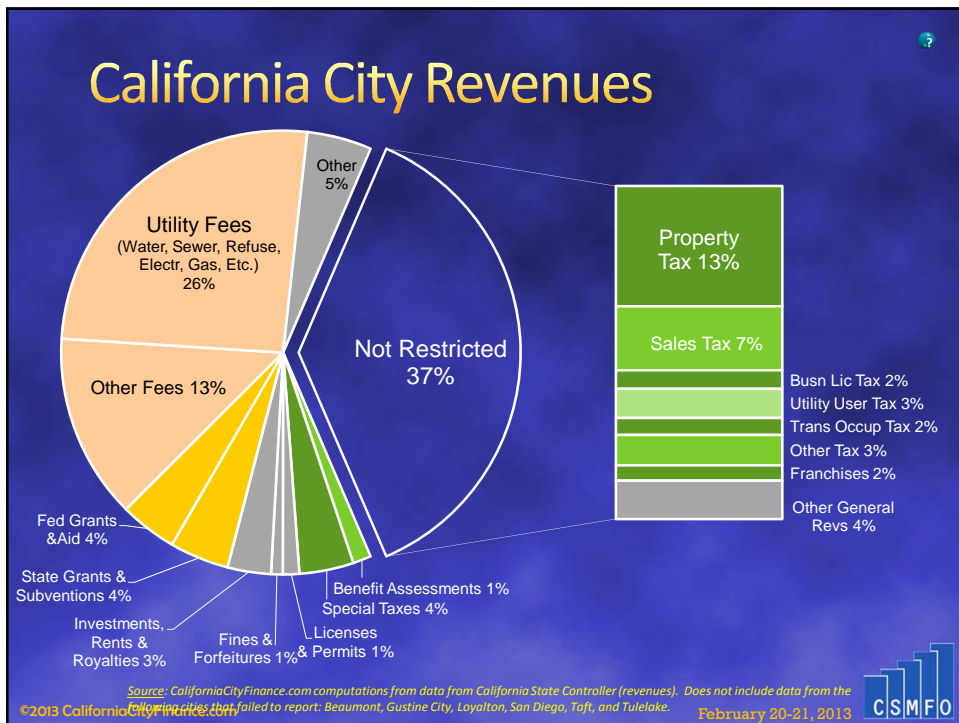
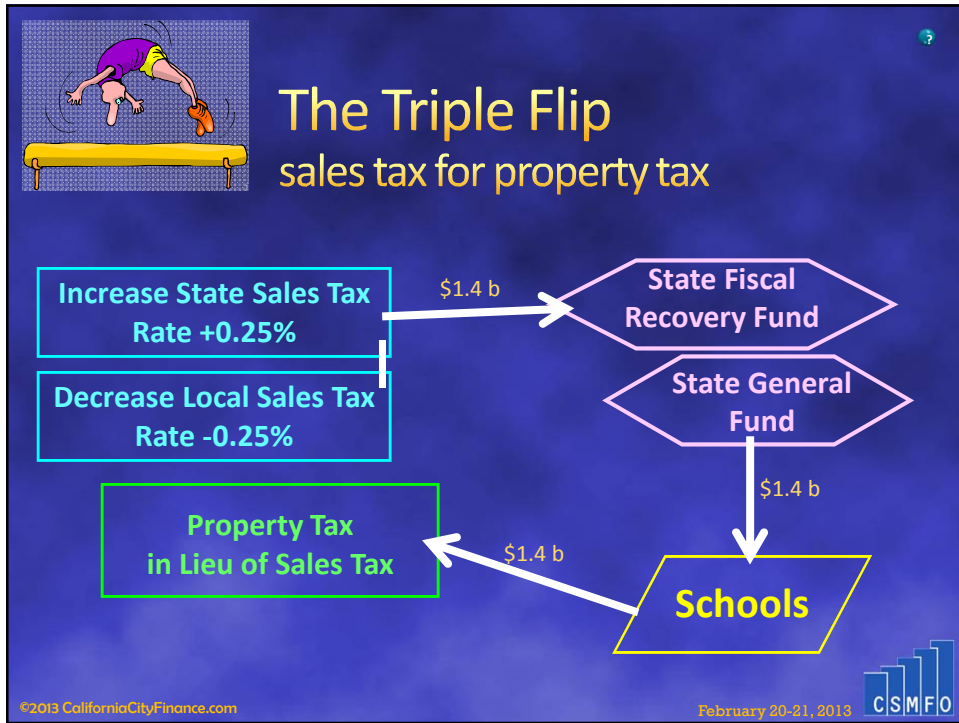
The pie chart shows the following distribution of sales tax revenue:

- State General Fund: 4.1875%
- Prop30**: 1/4%
- City: 1%*
- County Realignmt: 1.5625%
- County Transportn: 1/4%
- Prop172 Law Enfcmnt: 1/2%
- Add-On Transactions & Use (varies)

* Local 1% rate includes 1/4% Triple Flip reimbursement.
 For taxable sales in unincorporated areas, the local 1% rate goes to the county.

** 1/4% Proposition 30 state sales tax effective 1/1/2013 expires 12/31/2016

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Discretionary Revenues and Spending

Typical Full Service City



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